

Message Text

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ORIGIN EA-06

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TO AMEMBASSY MANILA

C O N F I D E N T I A L STATE 010957

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C O R R E C T E D C O P Y (MRN CORRECTION 010957 VICE 011957)

E.O. 11652:GDS

TAGS: EFIN, EINV, RP, US

SUBJECT: SEC CHARGES GTE WITH PHILIPPINE PAYOFFS

REFS: A. STATE 8944, B. MANILA 751

1. SEC HAS CONFIRMED ACCURACY OF AP STORY (REFTEL A).
SUMMARIZING FROM SEC REPORT AND DEPOSITIONS, FOLLOWING IS
BACKGROUND OF SEC'S INVESTIGATION AND JANUARY 12 COMPLAINT
FILED AGAINST PHILIPPINE LONG DISTANCE TELEPHONE, WHOSE
STOCK IS TRADED ON AMERICAN STOCK EXCHANGE.

2. UP TO 1966 GENERAL TELEPHONE (GTE) OWNED 28 PER CENT
OF THE PHILIPPINE LONG DISTANCE TELEPHONE (PLDT), WHICH
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CONSTITUTED A CONTROLLING INTEREST. ACCORDING SEC REPORT,
POLITICAL PRESSURE WAS PUT ON GTE TO SELL ITS INTEREST
TO FILIPINOS IN ACCORDANCE WITH GOP'S GENERAL PROGRAM TO
"FILIPINIZE" BUSINESSES IN THE PHILIPPINES. GTE WAS
APPARENTLY READY TO SELL OUT TO THE FAMILY OF SENATOR
AQUINO, THEN AND NOW A PRINCIPAL OPPONENT OF PRESIDENT
MARCOS. MARCOS INTERVENED, AT FIRST INDIRECTLY AND THEN

PERSONALLY. INITIALLY HE USED A SERIES OF INTERMEDIARIES INCLUDING THEN AMBASSADOR TO THE U.S. BEN ROMUALDEZ, EDUARDO ROMUALDEZ, CESAR VIRATA, AND PRESIDENT OF THE PHILIPPINE NATIONAL BANK BENEDICTO.

3. MARCOS AND INTERMEDIARIES CONTENDED THAT AQUINO WAS A "COMMUNIST" AND THAT PHILIPPINE NATIONAL SECURITY WOULD BE JEOPARDIZED IF THE NATIONAL TELECOMMUNICATIONS NETWORK FELL INTO HIS HANDS. MARCOS PROPOSED INSTEAD THAT THE SALE BE MADE TO A GROUP KNOWN AS THE PHILIPPINE TELECOMMUNICATIONS INVESTMENT CORPORATION (PTIC). THREATS WERE APPARENTLY MADE THAT FAILURE TO DEAL WITH THIS GROUP WOULD RESULT IN DENIAL OF VARIOUS PRIVILEGES ESSENTIAL TO GTE'S CONTINUING ABILITY TO DO BUSINESS IN THE PHILIPPINES.

4. HOWEVER, PTIC WAS UNABLE TO PAY FOR THE PURCHASE, AND COMPLICATED FINANCIAL DEAL WAS WORKED OUT WHEREBY:

A) PTIC BORROWED THE MONEY TO PAY GTE;

B) PTIC USED ITS NEW MANAGEMENT POSITION IN PLDT TO MAKE EXTENSIVE PURCHASES OF EQUIPMENT FROM GTE; AND

C) GTE PAID PTIC, THROUGH A BAHAMIAN SUBSIDIARY, COMMISSIONS ON ITS SALES TO PLDT, WHICH WERE THEN USED TO REPAY THE INITIAL LOANS.

5. IN SUBSEQUENT YEARS, PTIC CONTINUED TO EXPERIENCE
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DIFFICULTY IN PAYING OFF THE ORIGINAL LOANS. WITH GTE ASSISTANCE, THEY ROLLED OVER THE ORIGINAL LOANS, NEW CONTRACTS WERE ENTERED INTO WITH PLDT, AND ADDITIONAL COMMISSIONS WERE PAID TO PTIC.

6. NOWHERE DO SEC DOCUMENTS SUGGEST MARCOS OR ABOVE-NAMED INTERMEDIARIES PERSONALLY RECEIVED FUNDS. ON THE CONTRARY, GTE'S FORMER BOARD CHAIRMAN SPECIFICALLY DENIED KNOWLEDGE OR EVEN SUSPICION THAT MARCOS RECEIVED ANY MONEY. (BUT WHILE IT IS QUITE POSSIBLE THAT MARCOS' PRINCIPAL OR SOLE MOTIVATION WAS TO DENY CONTROL OF PHILIPPINE TELECOMMUNICATIONS TO HIS CHIEF POLITICAL OPPONENT, CONTRARY INFERENCES COULD CERTAINLY BE DRAWN.)

7. COURT ACTION HAS RESULTED IN "CONSENT ORDER": SEC SET OUT ITS ALLEGATIONS AND PLDT, WITHOUT ADMITTING OR DENYING CORRECTNESS OF THOSE ALLEGATIONS, AGREED TO REFRAIN FROM FURTHER VIOLATIONS OF SEC REGULATIONS AND TO PAY BACK PLDT DOLS 1 MILLION IN CASH.

8. COLLATERAL ACTION AGAINST GTE IS EXPECTED TO BE
FILED WITHIN A FEW WEEKS ALONG THE SAME LINES AS PLDT
CASE.

9. THE DETAILS OF GOP POLITICAL AND MARCOS' PERSONAL ROLE
WILL NOT BECOME PUBLIC BY VIRTUE OF SEC ACTION PER SE. BUT
IT IS POSSIBLE THAT FURTHER DETAILS COULD COME OUT
AFTER SEC FILES AGAINST GTE IF SOMEONE CHOSE TO MAKE A
FREEDOM OF INFORMATION ACT REQUEST.

10. WE HAVE UNCONFIRMED REPORT OF UPI FOLLOW-UP STORY
CLAIMING FOUR FILIPINOS NAMED IN AP ARTICLE WERE FRONT
FOR MARCOS, BASED ON INTERVIEW WITH PHILIPPINE EXILE
IN U.S. TO OUR KNOWLEDGE, HOWEVER, UPI STORY HAS NOT
APPEARED IN AMERICAN PRESS.

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